

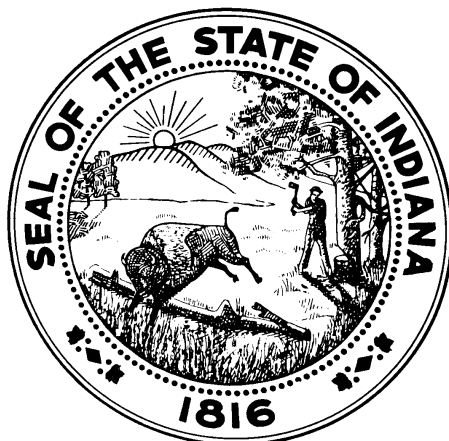
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

CITY OF MARION MUNICIPAL UTILITIES

GRANT COUNTY, INDIANA



**FILED**  
07/17/2008



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report .....	3
Statement of Net Assets .....	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-16
Supplementary Information: Schedule of Funding Progress .....	17
Audit Result and Comment: Capital Asset Deletions .....	18
Exit Conference .....	19

## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Director	William M. McElhaney	01-01-07 to 12-31-08
Office Manager	Mendy S. Cox	01-01-07 to 12-31-08
Controller	Cindy Wright	01-01-07 to 12-31-08
Mayor	Wayne W. Seybold	01-01-04 to 12-31-11
President of the Utility Service Board	Robert Logan	01-01-07 to 12-31-08
President of the Board of Public Works and Safety	Ray Harris	01-01-07 to 12-31-08
President of the Common Council	David K. Homer Reggial E. Nevels	01-01-07 to 12-31-07 01-01-08 to 12-31-08



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF MARION MUNICIPAL UTILITIES, GRANT COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Marion Municipal Utilities (Utilities), a department of the City of Marion, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Marion as of December 31, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

STATE BOARD OF ACCOUNTS

June 9, 2008

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2007

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Current assets:			
Cash and cash equivalents	\$ 185,627	\$ 173,816	\$ 151,148
Interest receivable	2,894	2,552	2,218
Accounts receivable (net of allowance)	440,169	201,952	382,446
Accounts receivable - other	3,975	11,483	1,172
Inventories	116,582	2,452	23,213
Prepaid items	39,844	23,578	11,343
Total current assets	789,091	415,833	571,540
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	288,257	272,839	111,571
Depreciation equipment reserve cash and investments	-	-	168,201
Bond and interest cash and investments	172,196	-	288,569
Bond and interest reserve cash and investments	397,500	-	555,301
Construction cash and investments	697,882	254,219	257,893
Customer deposits cash and investments	235,608	185,170	-
Quail Hollow cash and investments	21,700	-	-
EPA plant replacement cash and investments	-	876,809	-
Total restricted assets	1,813,143	1,589,037	1,381,535
Deferred charges	22,424	-	-
Capital assets:			
Land and construction in progress	862,749	223,590	107,574
Other capital assets (net of accumulated depreciation)	17,702,730	24,904,787	14,443,848
Total capital assets	18,565,479	25,128,377	14,551,422
Total noncurrent assets	20,401,046	26,717,414	15,932,957
Total assets	21,190,137	27,133,247	16,504,497
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	32,168	12,460	6,866
Accrued payroll	23,106	24,352	13,774
Taxes payable	18,470	-	-
Compensated absences	65,090	53,480	38,879
Current liabilities payable from restricted assets:			
Accounts payable	430	430	430
Contracts payable	46,624	1,150	2,433
Customer deposits	235,608	185,170	-
Revenue bonds payable	415,000	-	-
Loan payable	-	-	287,616
Total current liabilities	836,496	277,042	349,998
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium and deferred amount on refunding)	393,870	-	-
Loan payable	-	-	3,385,268
Total noncurrent liabilities	393,870	-	3,385,268
Total liabilities	1,230,366	277,042	3,735,266
<u>Net Assets</u>			
Invested in capital assets, net of related debt	17,756,609	25,128,377	10,878,538
Restricted for debt service	569,696	-	843,870
Unrestricted	1,633,466	1,727,828	1,046,823
Total net assets	\$ 19,959,771	\$ 26,856,205	\$ 12,769,231

The accompanying notes are an integral part of the financial information.

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Storm Water Utility
Operating revenues:			
Metered water revenue:			
Residential	\$ 2,408,051	\$ -	\$ -
Commercial	1,126,329	-	-
Industrial	272,421	-	-
Fire protection revenue	752,817	-	-
Penalties	35,726	44,558	34,877
Flat rate revenues	9,383	-	-
Measured revenue:			
Residential	-	1,221,381	626,812
Commercial	-	836,021	1,280,829
Other	34,143	75,939	3,695
Total operating revenues	<u>4,638,870</u>	<u>2,177,899</u>	<u>1,946,213</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	200,689	-	-
Water treatment expense - operations and maintenance	1,017,804	-	-
Transmission and distribution	483,020	-	-
Collection system - operations and maintenance	-	-	632,100
Treatment and disposal - operations and maintenance	-	1,500,459	-
Customer accounts	330,882	346,173	36,759
Administration and general	460,126	265,227	368,760
Bad debt expense	24,491	2,658	4,049
Depreciation	615,671	826,134	323,460
Total operating expenses	<u>3,132,683</u>	<u>2,940,651</u>	<u>1,365,128</u>
Operating income (loss)	<u>1,506,187</u>	<u>(762,752)</u>	<u>581,085</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	132,294	96,913	76,226
Miscellaneous revenue	22,140	-	3,588
Gain on sale of asset	11,756	1,514	-
Interest expense	(67,338)	-	(110,565)
Amortization of bond issue costs	(22,424)	-	-
Total nonoperating revenues (expenses)	<u>76,428</u>	<u>98,427</u>	<u>(30,751)</u>
Income (loss) before contributions	1,582,615	(664,325)	550,334
Capital contributions	<u>25,624</u>	<u>-</u>	<u>13,109</u>
Change in net assets	1,608,239	(664,325)	563,443
Total net assets - beginning	<u>18,351,532</u>	<u>27,520,530</u>	<u>12,205,788</u>
Total net assets - ending	<u>\$ 19,959,771</u>	<u>\$ 26,856,205</u>	<u>\$ 12,769,231</u>

The accompanying notes are an integral part of the financial information.

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,545,543	\$ 2,129,217	\$ 1,853,022
Payments to suppliers and contractors	(1,310,122)	(636,364)	(316,330)
Payments to employees	(1,271,193)	(1,511,161)	(734,429)
Net cash provided (used) by operating activities	<u>1,964,228</u>	<u>(18,308)</u>	<u>802,263</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,483,161)	(325,560)	(420,293)
Principal paid on capital debt	(815,000)	-	(279,394)
Interest paid on capital debt	(43,043)	-	(110,565)
Nonoperating revenues	22,140	-	3,588
Proceeds from sales of capital assets	9,511	105	16
Net cash used by capital and related financing activities	<u>(2,309,553)</u>	<u>(325,455)</u>	<u>(806,648)</u>
Cash flows from investing activities:			
Interest received	<u>134,406</u>	<u>98,812</u>	<u>77,214</u>
Net increase (decrease) in cash and cash equivalents	(210,919)	(244,951)	72,829
Cash and cash equivalents, January 1	<u>2,209,689</u>	<u>2,007,804</u>	<u>1,459,854</u>
Cash and cash equivalents, December 31	<u>\$ 1,998,770</u>	<u>\$ 1,762,853</u>	<u>\$ 1,532,683</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income	<u>\$ 1,506,187</u>	<u>\$ (762,752)</u>	<u>\$ 581,085</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	615,671	826,134	323,460
Bad debt expense	24,491	2,658	4,049
(Increase) decrease in assets:			
Accounts receivable - customers	(104,040)	(47,044)	(94,448)
Accounts receivable - other	10,713	(1,638)	1,257
Inventories	(38,436)	-	833
Prepaid items	(4,025)	3,080	737
Increase (decrease) in liabilities:			
Accounts payable	(56,531)	(45,160)	(18,865)
Accrued payroll	(352)	(2,579)	89
Contracts payable	-	-	2,433
Taxes payable	(527)	-	-
Compensated absence payable	6,737	973	1,633
Customer deposits	4,340	8,020	-
Total adjustments	<u>458,041</u>	<u>744,444</u>	<u>221,178</u>
Net cash provided (used) by operating activities	<u>\$ 1,964,228</u>	<u>\$ (18,308)</u>	<u>\$ 802,263</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contracts payable	\$ 46,624	\$ 1,150	\$ -
Capital assets acquired through inventories	21,246	-	-
Capital assets acquired through contributions	25,624	-	13,109
Capital asset trade-ins	5,000	5,800	-

The accompanying notes are an integral part of the financial information.



CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Marion Municipal Utilities (Utilities) and are not intended to present fairly the financial position of the City of Marion (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 1,000	Composite rate	1.5% - 7.69%
Machinery and equipment	1,000	Composite rate	1.5% - 14.29%
Transportation equipment	1,000	Straight-line	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 7 days per year. Unused sick leave may be accumulated to a maximum of 37 days. Accumulated sick leave is not paid to employees upon termination, but is paid through cash payments upon retirement.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of the current year's entitlement. Accumulated vacation leave is paid to employees through cash payments upon termination/retirement.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

- c. Personal Leave – Utility employees earn personal leave at the rate of 6 days per year. Personal leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred and reported as a liability.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 308,453	\$ -	\$ -	\$ 308,453
Construction in progress	66,176	1,325,794	837,674	554,296
				-
Total capital assets, not being depreciated	374,629	1,325,794	837,674	862,749
Capital assets, being depreciated:				
Buildings and improvements	21,968,293	912,253	-	22,880,546
Machinery and equipment	5,520,574	98,643	22,389	5,596,828
Transportation equipment	613,518	48,838	81,548	580,808
Totals	28,102,385	1,059,734	103,937	29,058,182

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings and improvements	8,144,432	382,925	-	8,527,357
Machinery and equipment	2,260,628	193,524	19,772	2,434,380
Transportation equipment	435,904	39,222	81,411	393,715
Totals	10,840,964	615,671	101,183	11,355,452
Total capital assets, being depreciated, net	17,261,421	444,063	2,754	17,702,730
Total Water Utility capital assets, net	<u>\$ 17,636,050</u>	<u>\$ 1,769,857</u>	<u>\$ 840,428</u>	<u>\$ 18,565,479</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 213,763	\$ -	\$ -	\$ 213,763
Construction in progress	35,834	212,654	238,661	9,827
Total capital assets, not being depreciated	249,597	212,654	238,661	223,590
Capital assets, being depreciated:				
Buildings and improvements	32,067,964	274,442	-	32,342,406
Machinery and equipment	5,981,652	39,482	2,000	6,019,134
Transportation equipment	743,948	33,443	24,151	753,240
Totals	38,793,564	347,367	26,151	39,114,780
Less accumulated depreciation for:				
Buildings and improvements	10,584,303	575,927	-	11,160,230
Machinery and equipment	2,433,435	189,252	1,945	2,620,742
Transportation equipment	387,881	60,955	19,815	429,021
Totals	13,405,619	826,134	21,760	14,209,993
Total capital assets, being depreciated, net	25,387,945	(478,767)	4,391	24,904,787
Total Wastewater Utility capital assets, net	<u>\$ 25,637,542</u>	<u>\$ (266,113)</u>	<u>\$ 243,052</u>	<u>\$ 25,128,377</u>

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Storm Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 81,571	\$ -	\$ -	\$ 81,571
Construction in progress	26,003	354,005	354,005	26,003
Total capital assets, not being depreciated	107,574	354,005	354,005	107,574
Capital assets, being depreciated:				
Buildings and improvements	15,116,467	410,336	-	15,526,803
Machinery and equipment	307,260	4,536	400	311,396
Transportation equipment	642,854	-	-	642,854
Totals	16,066,581	414,872	400	16,481,053
Less accumulated depreciation for:				
Buildings and improvements	1,423,508	226,747	-	1,650,255
Machinery and equipment	34,093	38,369	384	72,078
Transportation equipment	256,528	58,344	-	314,872
Totals	1,714,129	323,460	384	2,037,205
Total capital assets, being depreciated, net	14,352,452	91,412	16	14,443,848
Total Storm Water Utility capital assets, net	\$ 14,460,026	\$ 445,417	\$ 354,021	\$ 14,551,422

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water	\$ 615,671
Wastewater	826,134
Storm Water	323,460
Total depreciation expense	\$ 1,765,265

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Water Administrative Building Remodel	\$ 19,035	\$ 2,085	\$ 16,950	\$ -
Water STAG Grant Project	107,945	66,584	41,361	-
Water Boots/Spencer/8th Streets	300,023	126,612	173,411	-
Water Generator Replacement	460,000	296,598	163,402	-
Water D/Spencer/4th/Gall Streets	60,800	57,199	3,601	-
Water Storage Analysis Project	18,000	5,218	12,782	-
Wastewater LTCP Wet Weather Project	100,000	3,814	96,186	-
Wastewater LTCP Valves WW Gallery	112,000	6,013	105,987	-
Storm Water STAG Grant Project	26,925	26,003	922	-
Totals	<u>\$ 1,204,728</u>	<u>\$ 590,126</u>	<u>\$ 614,602</u>	<u>\$ -</u>

D. Leases

1. Operating Lease

The Water Utility has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a mailing system. Rental expenditures for this lease were \$2,676. The following is a schedule by years of future minimum rental payments as of December 31, 2007:

2008	\$ 2,676
2009	2,676
2010	2,676
2011	<u>2,676</u>
Total	<u>\$ 10,704</u>

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rate	Amount
2003 Waterworks refunding revenue bonds	3%	<u>\$ 835,000</u>

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2008	\$ 415,000	\$ 12,525
2009	<u>420,000</u>	<u>6,300</u>
Totals	<u>\$ 835,000</u>	<u>\$ 18,825</u>

2. Loan Payable

The Storm Water Utility has entered into a State Revolving Fund Loan. Annual debt service requirements to maturity for the loan, including interest of \$616,663, are as follows:

2008	\$ 340,873
2009	394,252
2010	394,378
2011	394,508
2012	394,642
2013-2017	1,975,362
2018	<u>395,532</u>
Total	<u>\$ 4,289,547</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 1,650,000	\$ -	\$ 815,000	\$ 835,000	\$ 415,000
Less deferred amount on refunding	(75,007)	-	(37,503)	(37,504)	-
Add bond premium	<u>24,582</u>	<u>-</u>	<u>13,208</u>	<u>11,374</u>	<u>-</u>
Total revenue bonds payable	1,599,575	-	790,705	808,870	415,000
Loan payable:					
Storm Water Utility	<u>3,952,278</u>	<u>-</u>	<u>279,394</u>	<u>3,672,884</u>	<u>287,616</u>
Total long-term liabilities	<u>\$ 5,551,853</u>	<u>\$ -</u>	<u>\$ 1,070,099</u>	<u>\$ 4,481,754</u>	<u>\$ 702,616</u>

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water Utility	Wastewater Utility	Storm Water Utility
Customer deposits	\$ 235,608	\$ 185,170	\$ -
Revenue bond debt service accounts	569,696	-	843,870
Revenue bond depreciation account	288,257	-	279,772
Other restricted assets	<u>719,582</u>	<u>1,403,867</u>	<u>257,893</u>
Total restricted assets	<u>\$ 1,813,143</u>	<u>\$ 1,589,037</u>	<u>\$ 1,381,535</u>

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment health insurance, vision insurance and life insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities after qualifying for the pension benefits described below. Currently, two retirees meet these eligibility requirements. The Utilities and retirees provided 69% and 31%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2007, expenditures of \$8,893 were recognized for postemployment benefits.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 30, 2005. The Utility has approximately 10,500 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on December 17, 1991. The Utility has approximately 10,460 customers.



CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Storm Water Utility

The current rate structure was approved by the Common Council on November 16, 1994. The Utility has approximately 11,150 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 348,918
Interest on net pension obligation	(13,684)
Adjustment to annual required contribution	<u>15,594</u>
Annual pension cost	350,828
Contributions made	<u>311,023</u>
Increase in net pension obligation	39,805
Net pension obligation, beginning of year	<u>(188,743)</u>
Net pension obligation, end of year	<u><u>\$ (148,938)</u></u>
Contribution rates:	
Utilities	5.5%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 266,525	100%	\$ (181,051)
	06-30-05	277,580	103%	(188,743)
	06-30-06	350,828	89%	(148,938)

CITY OF MARION MUNICIPAL UTILITIES  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 5,854,545	\$ 6,026,559	\$ (172,014)	97%	\$ 5,567,291	(3%)
07-01-05	6,079,068	6,935,712	(856,644)	88%	5,630,762	(15%)
07-01-06	7,154,625	7,475,880	(321,255)	96%	5,864,730	(5%)

Note: Information to segregate amounts between the City and Utilities is not available.

CITY OF MARION MUNICIPAL UTILITIES  
AUDIT RESULT AND COMMENT

CAPITAL ASSET DELETIONS

The Utilities recorded building renovations and plant improvements (replacements and/or renovations) during the audit period, but corresponding disposals of old building renovations and plant improvements were not recorded. When the Utility disposes of a capital asset, the cost of the asset and the related accumulated depreciation should also be recorded as a deletion.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MARION MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on June 9, 2008, with William M. McElhaney, Utilities Director; and Marjorie Miller, Utilities Accountant. The officials concurred with our audit finding.